

**SPECIAL MEETING OF COUNCIL
31 AUGUST 2009**

1. **IN PRINCIPLE APPROVAL OF THE
2008/2009 ANNUAL FINANCIAL REPORT,
STANDARD STATEMENTS AND
PERFORMANCE STATEMENT**

LOCATION/ADDRESS:

EXECUTIVE DIRECTOR:

**DAVID FILMALTER, CHIEF FINANCIAL
OFFICER**

PREPARED BY:

**DAVID FILMALTER, CHIEF FINANCIAL
OFFICER**

**ROWENA MCLEAN, ACTING MANAGER,
CORPORATE PLANNING AND
PERFORMANCE**

FILE NO.:

ATTACHMENTS:

**1. ANNUAL FINANCIAL REPORT
2008/2009**

2. STANDARD STATEMENTS 2008/2009

**3. PERFORMANCE STATEMENT
2008/2009**

1. EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to request that Council, as required by the Local Government Act:
- 1.1.1 Give 'in principle' approval to the Annual Financial Report, Standard Statements and Performance Statement (the Statements) for the financial year ending 30 June 2009. These Statements were reviewed by the Audit Committee on 26 August 2009.
- 1.1.2 Authorise two (2) specific Councillors to certify the Annual Financial Report, Standard Statements and Performance Statement (the Statements) in their final form after they have been reviewed by the Victorian Auditor-General and any changes recommended, or agreed to, by the auditor have been made.
- 1.2 The Audit Committee determined that Council, at its Special Meeting Monday 31st August 2009, be advised that the Audit Committee examined the accounts for 2008/2009 with the External Auditor on 26 August 2009.
- 1.3 Based on the examination, the Audit Committee recommend that the accounts presented to the Audit Committee, along with modifications discussed at its meeting, be adopted 'in principle' by the Council.
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- 1.4 The Audit Committee requested that it be advised of any significant changes to the accounts prior to this recommendation being made to Council.
- 1.5 Council has reported a surplus of \$11.232 million in 2008/2009 (2007/2008: \$7.878 million deficit).
- 1.6 Council's comparative results have been restated to take into account the impact of work in progress write offs that related to prior years. Full details of the impact of the prior period adjustments are set out in Note 1(b) to the Annual Financial Report (Attachment 1).
- 1.7 Council's balance sheet has been impacted by the non-cash adjustment for land revaluation decrements of \$110 million.
- 1.8 Council's standard statements compare budget to actual performance and the major variances identified relate to the consolidation of the Streetsahead joint venture and unbudgeted asset revaluation movements.

2. RECOMMENDATION

That Council:

- 2.1 Gives 'in principle' approval to the Annual Financial Report, Standard Statements and Performance Statement for the year ended 30 June 2009
- 2.2 Authorise the Mayor and Deputy Mayor to certify the Annual Financial Report, Standard Statements and Performance Statement in their final form after any changes recommended, or agreed to by the auditor have been made.

3. BACKGROUND AND CONTEXT

- 3.1 The Annual Financial Report, Standard Statements and Performance Statement (the Statements) are subject to external audit each year. WHK Horwath, agents for the Victorian Auditor-General, have been appointed as Council's external auditor for the 2008/2009 financial year.
- 3.2 After the Statements have been audited by WHK Horwath, they must be forwarded to the Victorian Auditor-General's Office for the Auditor-General's certification. Once certified, the Statements must be incorporated into the Annual Report and forwarded to the Minister for Local Government by 30 September 2009.
- 3.3 Prior to the Statements being forwarded to the Victorian Auditor-General or the Minister for Local Government, legislation requires Council to approve the Statements 'in-principle' and authorise two (2) specific Councillors to certify the Statements in their final form.

- 3.4 The Local Government (Finance and Reporting) Regulations 2004 require the Statements to be certified by the Principal Accounting Officer, two Councillors and the Chief Executive Officer.
- 3.5 The attached Statements have been prepared by Council staff and are in a form where Council and WHK Horwath are ready to present them to the Victorian Auditor-General.
- 3.6 The attached Statements were reviewed by Council's Audit Committee at its meeting of 26 August 2009.
- 3.7 The Victorian Auditor-General may recommend changes to the Statements. If agreed by Council's management, the changes can be made without the need to refer to a formal meeting of the Council as the two authorised Councillors are able to certify the Statements in their final form.

4. CONSULTATION AND STAKEHOLDERS

- 4.1 The preliminary audit has been conducted by WHK Horwath acting on behalf and appointed by the Victorian Auditor-General.
- 4.2 The City of Port Phillip Audit Committee reviewed the draft Statements for 2008/2009 at its meeting held 26 August 2009. The outcome of this review will be presented verbally at the Council meeting.
- 4.3 Appropriate and qualified Council staff have prepared the 2008/2009 statements.

5. ANNUAL FINANCIAL REPORT 2008/2009 (SEE ATTACHMENT 1)

- 5.1 Port Phillip City Council has reported a surplus from ordinary activities of \$11.232 million in 2008/2009 (2007/2008: \$7.878 million deficit). This result includes one off adjustments to recognise land and building assets for the Lady Forster Kindergarten and adjacent site transferred by the State Government valued at \$1.960 million, and an impairment loss of \$1.737 million.
- 5.2 Council increased its underlying revenue by \$9.279 million (excluding assets transferred by the State Government) in comparison to 2007/2008. Some of the more significant changes in revenue are as follows:
 - 5.2.1 Rates and garbage charges increased by \$3.599 million. This is a result of additional revenue of \$1.265 million derived from supplementary rates and an overall 2.9% increase in rates.
 - 5.2.2 Parking fees and fines increased by \$1.132 million as a result of an increase in the number of parking infringement notices throughout the year and a reduction in cancellation of parking fines.

- 5.2.3 Grants income increased by \$1.923 million. This is due to increased state government funding for the Cleve Plaza capital project (\$1.023 million), and receipt of the first quarter payment of the 2009/2010 Victorian Grants Commission funding during this financial year (\$520,000).
- 5.2.4 Developer contributions increased by \$2.176 million due to increases in open space contributions for St Kilda Hill (\$699,000), St Kilda East (\$778,000), South Melbourne (\$401,000) and St Kilda Road (\$158,000).
- 5.3 Council's underlying expenditure (excluding the loss on disposal of assets) increased by \$11.210 million in comparison to 2007/2008. Some of the more significant changes in expenditure are as follows:
- 5.3.1 Employee benefits increased by \$4.883 million due to:
- The impact of the 4.5% Enterprise Bargaining salary increment in July 2008
 - The impact of 24.5 new FTE positions, including 12.1 direct service positions.
 - Redundancy costs arising from the organisational restructure
- 5.3.2 External contracts increased by \$2.138 million due to cleaning costs and recycling and waste management contract increases as well as additional services required for the St Kilda festival.
- 5.3.3 Depreciation has increased by \$1.542 million due to a full years depreciation of new furniture and fittings relating to the St Kilda Town Hall redevelopment (\$674,000), and increased depreciation in building assets (\$820,000) as a result of additions over the past two years of \$35.628 million requiring depreciation to be charged over 12 months, as well as new assets such as the Palais Theatre being depreciated during the financial year.
- 5.3.4 Other expenses increased by \$1.270 million as a result of unrealised losses on council's investment portfolio. A provision of \$1.737 million for an impairment loss has been made on a Deutsche Bank floating rate note which has a maturity date of November 2012 and has been revalued down due to liquidity risk. In the prior year a provision was made for the potential loss on the sale of the carpark at 2 Princes Street as the carrying value of \$1.642 million exceeds the sale price of \$1.200 million by \$442,000.
- 5.4 Council's liquidity, that is Council's ability to pay short term liabilities, is measured by the working capital ratio which remains very healthy at 2.23:1. The increase from the previous year result of 2.22:1 is reflective of a slight increase in cash balances held at the end of the 2008/2009 financial year compared to the prior year.

- 5.5 Council's total net assets have decreased by \$95.371 million to \$1.854 billion. This is largely attributable to the revaluation of Council's fixed assets decreasing the value of land by \$109.950 million and increasing the value of land improvements (park assets) by \$3.347 million.
- 5.6 Council's rate determination statement for the year ending 30 June 2009 appears in Note 42 of the Annual Financial Report. This statement reflects a surplus of \$8.776 million, of which \$6.869 million needs to be set aside for carry over capital works. This leaves Council with an effective cash surplus of \$1.907 million.

6 STANDARD STATEMENTS 2008/2009 (SEE ATTACHMENT 2)

- 6.1 Council's Standard Statements compare its actual financial performance to its original Budget.
- 6.2 This requirement was introduced for the first time in 2003/2004 and they comprise an Income Statement, Balance Sheet, Statement of Cash Flows and a Statement of Capital Works
- 6.3 Explanations for major variances have been included in the accompanying notes to the Standard Statements. The most significant variances against budget are:

6.3.1 Standard Income Statement

6.3.1.1 Rates and garbage charges \$1.263 million favourable due to unbudgeted supplementary rates raised of \$1.265 million.

6.3.1.2 Operating grants \$2.034 million favourable due to:

- The unbudgeted early receipt of the first instalment of the 2009/2010 Victorian Grants Commission funding \$520,000.
- The indexation of various community services grants \$307,000.
- Additional libraries and festival grants \$237,000.
- Unbudgeted grants for Social Inclusion, Metro Access and Linking Neighbours programs \$224,000.

6.3.1.3 Contributions \$4.917 million favourable due to:

- The transfer of land and buildings of Lady Forster Kindergarten from the state government \$1.960 million.
- Additional developer contributions due to completion of a large number of property developments during the year \$2.271 million.

- Unbudgeted capital works contributions for Cleve Plaza and Murphy Reserve \$648,000.
- 6.3.1.4 Employee benefits \$2.785 million unfavourable primarily due to the unbudgeted consolidation adjustment for the Streetsahead joint venture of \$2.354 million.
- 6.3.1.5 Materials and consumables \$3.610 million unfavourable due to capital works expenditure recognised as operating expenditure \$3.417 million.
- 6.3.1.6 External contracts \$4.638 million favourable primarily due to the unbudgeted consolidation adjustment for the Streetsahead joint venture of \$3.219 million, and lower than expected building maintenance expenditure.
- 6.3.1.7 Bad and doubtful debts \$522,000 unfavourable due to higher than anticipated PERIN doubtful debts of \$474,000 and a change in the basis for calculating the doubtful debts provision on sundry debtors of \$100,000.
- 6.3.1.8 Professional services \$1.198 million unfavourable due to increased legal fees in relation to the St Kilda triangle and additional consultancy for the South Melbourne Market.
- 6.3.1.9 Depreciation \$2.652 million unfavourable due to a full years depreciation of new furniture and fittings relating to the St Kilda Town Hall redevelopment (\$674,000), and increased depreciation in building assets (\$820,000) as a result of additions over the past two years of \$35.628 million requiring depreciation to be charged over 12 months.
- 6.3.1.10 Loss on disposal of assets \$2.470 million unfavourable due to the following unbudgeted transactions:
- Cardigan Place Reserve land being removed from Council's asset register \$549,000 as it belongs to the Department of Education.
 - The scrapping of infrastructure assets which have been replaced or upgraded as a result of the capital works program \$1.406 million
 - Write off of \$115,000 plant and equipment assets no longer used by Council.
- 6.3.1.11 Other expenses \$1.466 million unfavourable due to the recognition of an impairment loss on our investment portfolio for the write down of a Deutsche Bank \$3 million floating rate note.

6.3.2 Standard Balance Sheet

6.3.2.1 Cash and financial assets (current and non-current) \$15.748 million favourable due to the delay in expending the 2008/2009 capital works program \$6.869 million, and a favourable variance of \$10.062 million in Council's cash backed other reserves compared to budget (see 6.3.2.10)

6.3.2.2 Other assets \$278,000 favourable due to an increase in prepayments for insurance for the 2009/2010 financial year.

6.3.2.3 Non-current assets classified as held for sale \$1.200 million favourable as a result of Council holding a property of 2 Princes Street for sale which was not accounted for in the 2008/2009.

6.3.2.4 Property, infrastructure, plant and equipment \$119.715 million favourable due to the following significant transactions not being accounted for when the budget was adopted:

- \$158.6 million being the net impact of land revaluations taken up in the last two financial years since the budget was adopted.
- \$3.0 million being land improvements revaluation increment at 30 June 2009.
- \$42.0 million of land and building housing assets transferred from Council to the Port Phillip Housing Trust.
- \$2.0 million contributed land and building assets relating to the planned redevelopment of Lady Forster Kindergarten.

6.3.2.5 Payables \$3.762 million unfavourable due to increased commitments at year end compared to the estimate projected in the 2008/2009 budget.

6.3.2.6 Trust funds \$1.185 million unfavourable due to Asset Protection Deposits which were not accounted for in the 2008/2009 budget.

6.3.2.7 Provisions (current and non-current) \$1.001 million unfavourable which is attributable to increased employee entitlements relating to annual leave and long service leave.

6.3.2.8 Interest-bearing liabilities (current and non-current) \$1.001 million unfavourable due to the inclusion of Council's share of the Streetsahead joint venture finance lease liability.

6.3.2.9 Asset revaluation reserves \$158.577 million favourable due to significant land revaluations being undertaken in the 2007/2008 and 2008/2009 financial years which were not accounted for in the 2008/2009 budget.

6.3.2.10 Other reserves \$10.062 million favourable primarily due to:

- Net developer contributions of \$2.213 million being received and transferred to reserve
- Delays in drawing down Council reserves for major projects including Gasworks Park remediation \$1.926 million and the St Kilda Family and Children's Centre \$700,000.
- The receipt of additional unbudgeted monies for long term Council commitments that were transferred to reserves at the end of 2007/08 namely:
 - Northport Oval - \$420,000
 - Childcare Infrastructure Levy - \$357,000
 - Sustainable Transport - \$51,000
 - Red Bears - \$337,000
 - Tied Grants - \$808,000
 - Cleve Plaza capital works - \$512,000

6.3.3 Standard Cash Flow

6.3.3.1 Payments to suppliers (inclusive of GST) \$6.659 million unfavourable variance due to the consolidation adjustment of \$3.291M for the Streetsahead joint venture and lower than anticipated building maintenance expenditure.

6.3.3.2 Government grants (inclusive of GST) \$2.391 million favourable due to:

- The early receipt of the first quarterly instalment of the 2009/2010 grants commission allocation in 2008/09 (\$520,000)
- \$307,000 as a result of the indexation of various community services grants.
- \$237,000 due to additional libraries and festivals grants.
- \$224,000 due to additional grants for Social Inclusion, Metro Access and Linking Neighbours programs.

6.3.3.3 Contributions \$2.957 million favourable due to :

- Developer contributions from a number of large property developments in the municipality being completed in the early part of 2008/2009
- Unbudgeted capital works contributions for Cleve Plaza / Jacka Crossing (\$430,000) and Murphy Reserve (\$218,000).

6.3.3.4 Capital grants \$1.238 million favourable due to the receipt of unbudgeted grants for Cleve Plaza / Jacka Crossing \$574,000, Clarendon street pedestrian safety \$227,000 and Garden City reserve playspace works \$182,000.

6.3.3.5 Interest received \$445,000 favourable due to an increase in funds available for investment as a result of delays in expending Council's capital program.

6.3.3.6 Net GST refund \$6.232 million favourable due to the budget not accounting for receipt of GST refunds from the Australian Tax Office.

6.3.4 Standard Capital Works Statement

6.3.4.1 Buildings unfavourable \$937,000 due to:

- Completion of \$2.179 million of projects carried over from the 2007/2008 financial year.
- Underexpenditure of \$1.242 million due to delays in expending the 2008/2009 budget for St Kilda Family and Childrens' Centre, Liardet Street Family and Children's Centre and Urban Studies Centre.

6.3.4.2 Land improvements favourable \$1.851 million due to:

- Delays in expending \$1.629 million of the 2008/2009 capital budget for Sandridge Beach Promenade, Cleve Plaza and St Kilda Skate Park
- \$2.423 million of soil remediation works at Gasworks Park not expended
- Completion of \$1.899 million of projects carried over from the 2007/2008 financial year

6.3.4.3 Plant and equipment, furniture and fittings and heritage assets and works of art 2008/2009 budget figures are not split between the different asset classes. Overall, increased expenditure of \$1.348 million is due to items purchased not meeting Council's capitalisation threshold and being transferred to operating expenditure as well as minor delays in expending the information technology capital budget.

6.3.4.4 Increased expenditure of \$3.456 million on renewal is due to the completion of capital projects carried over from 2007/2008 financial year.

6.3.4.5 Underexpenditure of \$5.751 million on New Assets relates to:

- Plant and equipment, furniture and fittings and heritage assets underexpenditure of \$1.348 million as outlined above.
- Building assets underexpenditure of \$1.242 million as outlined above.
- Land improvements underexpenditure of \$1.174 million relating to delays in completing Cleve Plaza and St Kilda Skate Park capital projects.

7 PERFORMANCE STATEMENT 2008/2009 (SEE ATTACHMENT 3)

7.1 Each year the City of Port Phillip is required by legislation to prepare a performance statement to report on its achievement of the key strategic activities. The statement is included in the Annual Report and on Council's web site and must be signed off by Council.

7.2 The Performance Statement has been audited and approved by the External Auditor and can now be signed off by Council.

7.3 The Key Strategic Activities for 2008/09 include:

- (1) Improve Service to the Community
- (2) Governance and Risk Management
- (3) Financial Management and Accountability
- (4) Deliver on Community Plan Priorities
- (5) Deliver the City of the Port Phillip Climate Change Response.

Each Key Strategic Activity has a suite of indicators, measures and performance targets.

7.4 The Performance Statement notes that of the twelve Key Strategic Activity targets three were 'Achieved' and nine were 'Not Achieved'. Five of the twelve targets are based on external satisfaction surveys. Explanations are provided on the result for each performance target. This underlines the need (as outlined in the Victorian Auditor General's report into performance measurement and reporting in local government) for the sector to improve performance management.

7.5 This is the final Performance Statement for those key strategic activities identified for the 2005-2009 period. Council will report on the new key

strategic activities (a total of fifteen performance measures) as identified in the new Council Plan 2009-2013 strategic directions for the year ending 30 June 2010.

8 DISCUSSION

8.1 OPTIONS

8.1.1 Legislation requires Council to give in principle approval to the Statements before they can be certified by the Victorian Auditor-General, or make changes to the Statements and refer these back to the Victorian Auditor-General for verification and approval.

8.1.2 Council is also required to appoint and authorise two (2) Councillors to certify the Statements in their final form.

8.2 ALIGNMENT TO COUNCIL PLAN

8.2.1 The Performance Statement 2008/2009 reports on Council's achievement of the Key Strategic Activities as set out in Year 4 of the 2005-2009 Council Plan. The results have been audited by the Victorian Auditor-General's Office.

8.3 POLICY IMPLICATIONS PLAN

8.3.1 The Local Government Act 1989 requires Council to undertake these actions.

8.4 RESOURCE IMPLICATIONS

8.4.1 This report has no immediate resource implications.

8.5 LEGAL & RISK IMPLICATIONS

8.5.1 Council is required to submit an Annual Report which includes these statements to the Minister by 30 September 2009.

9 IMPLEMENTATION STRATEGY

9.1 TIMELINE

9.1.1 Council give 'in-principle' approval to the Statements and authorise two (2) Councillors to certify the Statements in their final form

9.1.2 The Statements are reviewed by the Victorian Auditor-General, who may recommend changes.

9.1.3 Final changes are made to the Statements which are then certified by the Principal Accounting Officer, two (2) Councillors and the Chief Executive Officer.

9.1.4 The Victorian Auditor-General certifies the Statements and provides an independent audit report providing an opinion on the Statements.

9.1.5 The Statements and independent audit report are incorporated into the Annual Report.

9.1.6 The Annual Report is sent to the Minister by 30 September 2009.

9.2 COMMUNICATION

9.2.1 After the Annual Report is sent to the Minister, Council must conduct a Special Meeting to discuss the Annual Report. The conduct of this meeting will be advertised in the local newspapers.

9.2.2 Council must also advertise that the Statements have been audited.

9.2.3 The Annual Report will be produced in hard copy and displayed at town halls and libraries and made available in soft copy on the Council's website.

10 OFFICER DIRECT OR INDIRECT INTEREST

10.1 No officers involved in the preparation of this report have any direct or indirect interest in the matter.